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FM AMEMBASSY TOKYO
TO RUEHC/SECSTATE WASHDC PRIORITY 9985
INFO RUEKJCS/SECDEF WASHDC PRIORITY
RHEHAAA/THE WHITE HOUSE WASHINGTON DC PRIORITY
RUEAWJA/USDOJ WASHDC PRIORITY
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E.O. 12958: N/A

TAGS: [OIIP](#) [KMDR](#) [KPAO](#) [PGOV](#) [PINR](#) [ECON](#) [ELAB](#) [JA](#)

SUBJECT: DAILY SUMMARY OF JAPANESE PRESS 12/04/07

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ARTICLES:

(1) Government, ruling camp on tight rope regarding budget compilation within year, intertwined with re-extension of Diet session; Pressure to increased spending from within ruling parties; DPJ geared up to take part in budget compilation process

NIKKEI (Page 2) (Slightly abridged)
December 12, 2004

The government and the ruling parties are increasingly alert to opposition parties' move over the compilation of the fiscal 2008 budget and re-extension of the Diet session. They want to avoid a delay in budget compilation until next year, as it could have a negative impact on the economy. However, the Democratic Party of Japan (DPJ or Minshuto), the no. 1 party in the Upper House, has begun moving forward in a bid to positively taking a hand in the compilation of the budget. An increasing number of lawmakers in the ruling camp are pressing for an increase in expenditures. If the Diet session is extensively re-extended, the government and the ruling camp will likely be pressed to compile the budget while walking a tightrope.

Prime Minister Yasuo Fukuda at an executive meeting of the Liberal Democratic Party (LDP) sought cooperation from the ruling parties for the compilation of the budget within the year, noting, "The compilation of the budget is at a crucial stage due to the tight Diet schedule."

The government and the ruling parties are trying to get the new legislation aimed at resuming refueling activities in the Indian Ocean passed during the current Diet session. However, they are also caught on the horns of a dilemma that if they extensively re-extend

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the Diet session, they would have to manage the Diet and compile the budget in parallel.

The government is concerned about a possible case in which the DPJ, which has dominance in the Upper House, calls for summoning cabinet ministers and senior ministry officials to various Diet committees or presses the ruling camp to reflect its plan in the budget for the next fiscal year.

LDP Secretary General Bunmei Ibuki during a press conference on Dec. 3 sought to check the DPJ, "Politicians must not allow the compilation of the budget to be put off until the next year." However, there is also a possibility of the DPJ calling for talks on the budgeting of policies, an issue on which the government and the ruling parties are not in agreement. A certain senior government official has pointed out, "Such a possibility would become a major disruptive factor in budget formulation by the end of the year."

The DPJ has already finished a hearing of budget request estimates directed at related government agencies. It intends to continue pursuing Finance Minister Fukushima Nukaga over a series of scandals involving the Defense Ministry, with President Ichiro Ozawa saying, "It is very serious if the words and actions of a person who compiles the budget are inconsistent with the facts."

Another key point for budget formulation is whether the government and the ruling parties can reach agreements on details when the Diet schedule is extremely tight.

Following the devastating defeat in the July Upper House election, the LDP is putting in a lot of work in the promotion of agriculture and the improvement of central government tax revenues allocated to local governments and the spread of the consolidation of road systems when compiling the budget for the next fiscal year. The New Komeito is also underscoring the need to improve social security. It considers it as an achievement that it has paved the way for delaying a plan to increase medical burdens shared by elderly people to a later date.

The government's policy includes a constraint on a natural increase in social security spending and revisions of public works, including

partial reallocation of road funds for other use. If ruling party members continue to seek an increase in spending with the next Lower House election in mind, the adoption of the budget draft could suffer a delay.

(2) JCP to field candidates fewer than half the number it backed in 2005 Lower House poll

MAINICHI (Page 5) (Abridged slightly)
December 4, 2007

The Japanese Communist Party (JCP) has generally decided to strictly reduce its candidates for the next House of Representatives election. As of yesterday, the party decided to field candidates for 104 electoral districts. In the previous 2005 Lower House election, the party backed candidates for 275 electoral districts. For the next poll, the number of JCP candidates is expected to be less than half of that number, even if additional endorsements (20 to 30 constituencies) are counted in.

The party's policy is to field candidates only for: (1) the

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constituencies where the party won over 8 PERCENT of total proportional representation votes in this summer's House of Councillors election; and (2) at least one constituency in every prefecture. In the 2005 poll, the party lost a total of 669 million yen in deposits in 223 constituencies. The party has turned around its traditional policy in order to avoid a huge financial burden. At the same time, there are active moves in large cities with a certain level of organizational power to field candidates for constituencies that do not meet the 8 PERCENT rule. Responses vary depending on local organizations. For instance in Tokyo, six out of 25 constituencies do not meet the 8 PERCENT requirement. But the Tokyo committee plans to field candidates in all electoral districts. The Kanagawa prefectural committee originally planned to field candidates only for nine constituencies, including eight that meet the 8 PERCENT requirement. Under the Public Offices Election Law, political parties are allowed to use two campaign cars only when they field 13 candidates or more. For this reason, the committee has decided to aim at more than 13 electoral districts.

Meanwhile, in the organizationally weak Tohoku, Hokuriku, and Shikoku regions, there are many cases in which the party will strictly limit endorsed candidates to the No. 1 capital city constituencies. In Toyama, which has three constituencies, the prefectural committee announced in June last year that it would back rookies for No. 1 and No. 3 constituencies. The committee has switched to fielding a candidate only for Constituency No. 1 in line with the party's policy.

Many in the largest opposition Democratic Party of Japan (DPJ or Minshuto) are hopeful that their party will be able to absorb JCP votes in constituencies with no JCP candidates. There is a move backing their wishful thinking. In Wakayama, the prefectural committee has decided to endorse a candidate only when the DPJ decides not to field its own candidate in Constituency No. 3, the home turf of LDP General Council Committee Chairman Toshihiro Nikai.

(3) Kantei-led panel to produce drastic Defense Ministry reform plan

MAINICHI (Page 2) (Abridged slightly)
December 4, 2007

The government launched yesterday the Ministry of Defense (MOD) Reform Council, an experts' panel chaired by Tokyo Electric Power Co. adviser Nobuya Minami, in a bid to play up the government's eagerness to address a series of improprieties engulfing MOD, including the bribery case involving former Administrative Vice-Defense Minister Takamesa Moriya. Every time an impropriety has come to light, the ministry has taken preventive measures, but they were all in vain. With the ministry always shrouded in secrecy, uncovering the truth about it has been difficult. Whether or not the council can produce by next February an interim report calling for

drastic reform remains to be seen.

Chief Cabinet Secretary Nobutaka Machimura started off the council meeting with the remark, "There is a need to return to the basics and take drastic measures, based on the public's perspective." He then asked the panel to study ways to: (1) ensure civilian control, (2) establish a strict information security system, and (3) increase transparency in defense equipment procurement. The three agenda items are now under study by MOD. The ministry has already taken

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steps for information security and is scheduled to reach conclusions to the remaining two challenges next March. The main stage for MOD reform has now shifted to the Prime Minister's Official Residence (Kantei) in the same way as reform of the Social Insurance Agency, according to a senior government official, meaning that the problem has grown so huge that the Kantei now has to deal with it.

Of the three areas, the procurement of equipment is an area that requires structural reform. The bribery case involving Moriya partly resulted from MOD's habitual use of trading firms to import defense equipment. Defense Minister Shigeru Ishiba plans to increase the number of officials responsible for imports and expand the framework to directly conclude contracts. It takes time, however, to foster a large number of officials familiar with foreign laws and accounting systems. There is also concern that the organization might become bloated.

The government was pressed to review civilian control in connection with the alleged diversion of oil provided by a Japanese supply ship in the Indian Ocean. It has become clear that the section chief responsible for the matter covered up the mistake and that led then Chief Cabinet Secretary Yasuo Fukuda to announce a false public statement about the amount of oil provided to a U.S. oiler. The danger of an SDF officer's independent decision spoiling national politics has been pointed out as well. MOD has decided on information security measures, such as prohibiting the use of personal computers at workplaces. Stepping up penalties for increasing effectiveness is expected to become point at issue.

(4) Moriya discarded in a move to preserve collusive ties among politicians, bureaucrats, businesses

TOKYO SHIMBUN (Page 25) (Full)
November 29, 2007

"I feel that there is also a move to lay all the blame on Moriya in an aim to close the curtain on the incident." This comment came from Nobumasa Ota, who entered the Defense Agency-now the Defense Ministry-in the same year with former Administrative Vice Defense Minister Takemasa Moriya, who has now been arrested on the charge of taking bribes from a defense contractor. Ota was a councillor of the Defense Agency director general's secretariat.

"He was treated to golf. That's all. That's the only thing they brought to light. That's a minor issue. There is other things that are really important. I wonder why the defense equipment Japan imports is priced so high. If the case ends up with such a trifling matter, the important issues will again drift into darkness." With this, Ota showed his strong concern about the investigations.

Ota noted that there are many golden parachutists who drop down from the Defense Ministry into the defense industry. "The Defense Ministry has no cost accounting capability," Ota said. "That's one of the reasons why the Defense Ministry buys everything from makers at their asking prices," he said. "Instead," he added, "makers accept the retired bureaucrats." The question is whether the exposed defense-interest scandal will ever arrive at the doorsteps of the politicians. However, Ota said definitely: "Only low-level politicians will put in a good word to the Defense Ministry for the sake of a defense equipment maker. Defense equipment makers think of politicians as bouncers. They are skillful at giving 'protection money' to such politicians. They're so clever that their offering of

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such money can never be uncovered by anyone (meaning that they know how to go around the Political Funds Control Law). Politicians have turned a blind eye to the Defense Ministry's collusive ties with its contractors."

Takashi Hirose, a nonfiction writer known as the author of *America and Its Big War Industries* (published by Shueisha), also says: "In this case, prosecutors raided Yamada Corporation and Nihon Mirise Corporation. They're investigating only small newcomers in the defense industry. Gigantic trading companies and gigantic heavy industries companies are the major businesses that lock on defense interests. They have a similar pattern of interests. However, their defense interests are not in focus. That's strange. If they look into big companies dealing in weapons, all these companies could be suspected of doing the same thing as in the bribery case this time."

Hirose continues: "The Defense Agency has now been upgraded to the status of a ministry. But the government office actually in charge of the defense budget is the Finance Ministry. The Defense Ministry's senior officials in charge of accounting are mostly from the Finance Ministry or otherwise from the National Tax Administration Agency. They have overlooked that trading company's bill-padding practice. That is the Finance Ministry's fault. If we get to the bottom of problems over defense interests, there should be politicians and businesses that have something to do with defense interests. Moriya is not the ringleader."

Another journalist, Hirotoishi Ito, also says more than 90 PERCENT of Japan's defense interests are in the hands of heavy industries companies manufacturing fighter planes, tanks, and vessels. "Yamada Corporation's business is small when compared with their business," Ito said, adding: "There was trouble between Yamada Corporation and Nihon Mirise Corporation, which became independent of Yamada Corporation. That's why their case turned out to be a scandal. If they had no trouble, their case wouldn't have become a scandal, I think." Ito also noted, "Investigative authorities are targeting politicians from the start."

There is a fundamental problem over defense interests. That is, weaponry and equipment are custom-made and outside the principle of market mechanism that works for ordinary business. For example, in the case of a fighter plane, its price is one of the criteria for selection. However, the government, once it selects a certain fighter jet model, will continue to buy specific equipment at its maker's asking price.

There is another case. The Air Self-Defense Force has been using U.S.-developed fighter jets. However, Japanese companies produce them under license "for national security reasons" and "in order to develop domestic industries." That is a government-assigned job, which can easily become a hotbed of interests.

The government easily narrows the scope of information disclosure. To do so, the government cites its need to protect military secrets as a reason. In addition, the government is prone to enter into optional contracts that are murky. This is also a background of defense interests. In point of fact, 57 PERCENT of all contracts with the Defense Ministry in fiscal 2006 were optional. Such defense interests are deep-rooted. Moreover, they are in the darkness. It is therefore extremely difficult to get the whole picture of defense interests.

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Makoto Konishi, who was once in the Self-Defense Forces and who is now a commentator on military affairs, said: "They're in a turmoil. However, the case only unveiled an example of collusive ties that have benefited both bureaucrats and SDF personnel."

This is the second and last part of a two-page report.

(5) Seiron (Opinion column) by Satoshi Morimoto on Japan-U.S. alliance: Japan is principally responsible for activating the alliance

Satoshi Morimoto, director and professor at Takushoku University's
Institute of World Studies

Japan should use new antiterrorism legislation as a basis for
creating a permanent law

The domestic and external situations surrounding the Japan-U.S.
alliance are not necessarily good. The primary responsible for
turning these situations around and boosting the alliance lies with
Japan.

New antiterrorism legislation aimed at allowing Japan to resume the
refueling mission in the Indian Ocean has been used by political
parties for months as a tool for political horse-trading. This kind
of political horse-trading may be in line with the parties' logic
but lacks national interest and public benefit. At a time when other
countries are making sacrifices in antiterrorist operations, if
Japan remains unable to cooperate even in the area of supplying oil
and water, it will lose international confidence. Japan also will be
seen by the United States as lacking resolve as an ally.

Japan must live up to America's expectations as long as the U.S.
pins hopes on Japan's political leadership. The antiterror
legislation will sooner or later be passed into law if the current
session of the Diet is re-extended and necessary procedures are
followed. The more important goal would be whether Japan can use
that legislation as a basis for enacting permanent dispatch law
later.

The bribery scandal involving former Vice Defense Minister Takemasa
Moriya undeniably has cast a pall over security affairs, including
the Japan-U.S. alliance. This scandal is so serious that a drastic
review of the organization of the Ministry of Defense and its
systems, including the concept of civilian control, is
indispensable.

Moreover, cost-sharing related to host nation support (HNS) has
become a serious issue for the U.S. In the ongoing negotiations to
renew the special measures agreement, the Japanese side has
suggested cost-cutting by repealing the special treatment system for
Japanese workers at U.S. bases, but for the U.S., the HNS is a
symbol of the Japan-U.S. alliance, so Washington is skeptical
about Japan's intention to slash the HNS.

HNS cut will have an ill effect on Japan-U.S. alliance

Given that the HNS, commonly called "sympathy budget," started at

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the end of the 1970s, it may be time to reconsider it. But the U.S.
is in fiscal difficulty at present as a result of spending the
enormous amount of money expended for national defense in order to
fight the Iraq war. Japan, too, is fiscally strapped, but
considering the future of East Asia, Japan must not adversely affect
the bilateral alliance by making slight cuts in the HNS budget.

When it comes to the realignment of the U.S. forces in Japan,
problems continue to exist. The construction of an alternate
facility for the U.S. Marine Corps Futenma Air Station and the
transfer of marines from Okinawa to Guam are both linked closely to
the U.S. realignment plans. Failure to implement one part could lead
to a collapse of the whole. Both sides are responsible for
faithfully implementing what they agreed on after long negotiations,
even though some of the agreements remain debatable. In order to
deal with China's moves in the West Pacific, including the East and
South China Seas, and the unpredictable Korean Peninsula crisis, it
is absolutely necessary for the U.S. to be prepared to respond based
on its transformation plans that run from 2012 to 2014. Likewise, it
is necessary for Japan to determine its role-sharing under the
Japan-U.S. alliance and based on that decision, review how Japan's
defense capability should function. Doing these things is an
important challenge for Japan in view of its future and in terms of

securing the safety of its people.

It's mistake to see Japan as being isolated

North Korea is disabling its nuclear reprocessing facilities. This has provided us a sense of security, but North Korea is not likely to hand over its nuclear weapons. Meanwhile, Japan-China relations have been improving, reflecting only the fact that China gives priority to its national interests and intentions. As a result, when we look at the future of East Asia, there is nothing there that can give us a sense of security. Japan should see through the true natures of neighboring countries without being fooled by visible phenomena.

Some in Japan have a strong allergy to America's Iraq war, but it is wrong to see the U.S. in this light alone. America's efforts to bring stability to the international community as a whole must be properly appreciated. Only a determined will and power are capable of dealing with unreasonable violence.

Whatever administration emerges as a result of next year's American presidential election, the U.S. is likely to reduce its national defense budget and armed forces in the near future, while urging its allies to make even more international contributions. I think it is Japan's responsibility as a U.S. ally to prod it to continue its engagement policy for regional stability, including Asia. For that end, Japan needs to back the U.S. There is no time for the ruling and opposition parties in Japan to busy themselves in political horse-trading.

Moreover, it is wrong to think that only Japan is isolated in East Asia. Other countries more than we can imagine look to Japan and its overall power with expectation. What has made them uneasy is that they cannot see what Japan regards as its national interests and how far it is determined to make sacrifices in order to maintain the alliance.

What Japan should do now is to make clear what it is about to address as priority tasks in order to reenergize the Japan-U.S.

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alliance. The important thing in this sense is for Japan to activate dialogues with the U.S. at various levels, while asserting its positions to it in order to secure America's confidence of Japan. It is also important for Japan to make clear what its national interests are and to seriously grapple with issues related to those interests.

(6) Pursuing "Fukudanomics," aiming at both economic growth and fiscal reconstruction

NIKKEI (Page 5) (Excerpts)
December 3, 2007

By executive editor Naoaki Okabe

Both growth and fiscal reconstruction are needed now for the Japanese economy. Prime Minister Yasuo Fukuda should simultaneously pursue economic growth and fiscal reconstruction, the so-called "Fukudanomics."

State Minister in Charge of Economic and Fiscal Policy Hiroko Ota, who plays the role of the control tower in mapping out economic policy for the Fukuda administration, is somewhat perplexed. Torn between those negative about tax hikes in calling for prioritizing economic growth and others in favor of tax increases in urging for measures to reconstruct the nation's financial system, including the fiscal reform study group of the Liberal Democratic Party, Ota finds it difficult to come up with any definite strategy.

Prime Minister Fukuda, though, has remained silent, giving no clear-cut instructions. He just has said: "(The administration) regards fiscal reconstruction and economic growth as two main inseparable policy goals." Regarding tax reform, which shows the administration's basic stance, too, Fukuda only remarked: "The consumption tax will not be raised immediately."

Although Ota said: "The Fukuda administration will soon come up with its own policy vision," more than two months have already passed since its inauguration. Unable to work out even the basis of a strategy, Japan will be unable to hold its own by keeping internationally competitive.

With the global economy now at a historic turning point, the Japanese economy might be driven into a corner. In a survey conducted by the World Economic Forum to assess countries' competitiveness, Japan dropped from the 5th to 8th place, reflecting its terrible fiscal condition. Regarding the degree of integration into the global economy, Japan also keeps a low profile. The degree of Japan's market openness to foreign capital is the lowest among the major industrialized countries.

Japan first should come up with a strategy to significantly boost its economy. Since Japan has long been in an era of slow economic growth, its growth strategy remains modest. Mature industrialized countries did not give up on high economic growth, either. The United States significantly improve productivity on the strength of IT reform after suffering twin deficits in trade and the federal budget. The European Union (EU), whose economy had been on the decline, also attained its full growth by means of integration.

As suggested by Masaru Yoshitomi, it might be an idea to present a plan to double productivity to replace the current income-doubling

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plan. By taking the initiative in integrating the Asian economies, Japan should take in energy to revitalize its economy. The central and local governments should step up efforts to draw in foreign capital in a more positive manner. As long as Japan is satisfied with the present state in the closed society, the Japanese economy will never be put on the path to sustainable recovery. The economy will "not grow without market liberalization."

Containing global warming has become the common goal of the world. Jumping over hurdles is Japanese firms' special technique. German Chancellor Angela Merkel said: "Technical development is vital to meet the global goal."

Excessive dependence on monetary measures in a strategy for economic growth will inevitably bring about negative effects. With the sub-prime risk spreading, the Bank of Japan will have no choice but to continue the current monetary-easing policy. At the same time, the central bank must keep its independence. The stabilization of currency is imperative as the basis for economic growth.

It is also necessary to set the goals of economic growth and fiscal reconstruction higher. The government is aiming to turn the primary balance into the black in fiscal 2011, but only Japan among industrialized countries use the primary balance as a goal for fiscal reconstruction. Japan now should use the ratio of fiscal balance and long-term outstanding loans to gross domestic product (GDP) as a goal based on an international standard.

Former US Federal Reserve Bank Chairman Alan Greenspan said in his authored book titled: The Age of Turbulence: "For economic policymaking officers, the decisive question is not whether a financial deficit will negatively affect the economy but to what extent the deficit will affect the economy." If the economy is hurt, the fiscal conditions will naturally be hurt.

A new combination of economic growth and fiscal reconstruction is now needed. Joseph Schumpeter advocated that promoting reform by entrepreneurs through new combination of development, production, sales, or organizations will lead to economic growth. This argument should also hold true of policy reform.

Thoroughly streamlining or cutting expenditures is the main precondition for promoting a new combination of growth and fiscal rebuilding. It will be meaningless if the fruits produced as a result of economic growth are not used to promote fiscal reconstruction and will instead allow government finances to swell. If pork-barrel politics revives as part of an election strategy, the

foundation of the new combination will collapse.

The pivot for combining growth and fiscal reconstruction is drastic tax reform. Raising the consumption tax will be unavoidable as a financial source for such social security programs as pension and medical care. In order for Japan to boost foreign direct investment while keeping its international competitiveness, it will also be necessary to reduce the corporate tax rate.

(7) TOP HEADLINES

Asahi:

Poll shows voters likely split equally between LDP and DPJ if Lower House election is held now

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Mainichi:

Prosecutors focus on three bribery charges against Moriya over defense contracts worth 10.3 billion yen

Yomiuri:

Government survey finds 498 cases of elder physical abuse at nursing homes last fiscal year

Nikkei:

Yahoo Japan, eBay to form business tie-up for Internet auction sites

Sankei:

Global warming eroding happy island Vanuatu

Tokyo Shimbun:

Japan, US in meeting prior to COP13 agree on voluntary setting targets to reduce CO2 emissions

(8) EDITORIALS

Asahi:

- (1) MOD should start from scratch
- (2) A hunch that "Putin dynasty" would come

Mainichi:

- (1) Climate Change Conference in Bali: A forum participated in by all countries not sufficient
- (2) Osaka governor's decision not to run for gubernatorial race: Top leader should not be lenient about politics and money issue

Yomiuri:

- (1) Reform of MOD: Transparency of equipment procurement essential
- (2) Putin has paved the path for him to follow after stepping down as president

Nikkei:

- (1) Russia is likely to be led by Putin even after Putin steps down as president
- (2) Aspirations to prevent climate change now tested

Sankei:

- (1) Reform of MOD: Take time and discuss fundamentals
- (2) Time to reconsider diplomacy toward Russia

Tokyo Shimbun:

- (1) Reform of MOD: The Diet should be more engaged in reform of MOD, even though an experts' council to discuss reform of MOD came into being
- (2) Political diversity may be lost in Russia

(9) Prime Minister's schedule, December 3

NIKKEI (Page 2) (Full)
December 4, 2007

08:01

Departed from Haneda Airport on ANA 191.

09:28

Arrived at Oita Airport.

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10:48

Met the Crown Prince, followed by former Prime Minister Mori at the B-Con Plaza in the city of Oita.

11:00

Attended the opening ceremony of the 1st Asia-Pacific Water Summit.

13:00

Attended a cocktail and lunch party with summit participants. Afterward met Crown Prince Willem of the Netherlands.

13:47

Inspected the Nobuchibaru Athletic Grounds from aboard a helicopter.

14:02

Arrived at Oita Airport.

14:24

Departed from Oita Airport on JAL 1790.

15:24

Arrived at Haneda Airport.

16:02

Arrived at his official residence.

16:25

Returned to the Kantei.

16:58

Attended an LDP executive meeting in the Diet building.

17:31

Attended a Council on Economic and Fiscal Policy meeting at the Kantei.

18:45

Attended a wake for the late Ryuko Wada, a former Japan Business Federation secretary general, at a temple in Takanawa.

19:21

Returned to his private residence in Nozawa.

SCHIEFFER